

**Erlanger-Elsmere
Independent School District**

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2013

Erlanger-Elsmere Independent School District

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2013

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Erlanger-Elsmere Independent School District

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2012

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**Erlanger-Elsmere
Independent School District**

District Officials

June 30, 2013

Superintendent

Kathy Burkhardt

School Board Members

Rick Ernst
Robin Cooper
David Bird
Tom Luken
Jeff Miller



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

Charles A. Van Gorder, CPA
John P. Walker, CPA, MBA
Lori A. Owen, CPA
John R. Chamberlin, CPA, MBA
Members of AICPA & KYCPA
Licensed in Kentucky & Ohio

INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Education
Erlanger-Elsmere Independent School District
Erlanger, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Erlanger-Elsmere Independent School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

-Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

-Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in the *Independent Auditor's Contract*, including *Appendix I- Audit Extension Request* and *Appendix II- Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

-Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Erlanger-Elsmere School District as of June 30, 2013 and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

-Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* and the budgetary comparison information on pages 4–8 and page 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

-Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Erlanger-Elsmere Independent School District's basic financial statements. The combining financial statements, school activity fund schedules and the schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining financial statements, school activity fund schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements, school schedules and the schedule of expenditures are fairly stated, in all material respects, in relation to the financial statements as a whole.



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2013 on our consideration of Erlanger-Elsmere Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Erlanger-Elsmere Independent School District's internal control over financial reporting and compliance.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker, & Co., Inc.
Erlanger, Kentucky
October 15, 2013

**ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

Management's Discussion and Analysis

As management of the Erlanger-Elsmere Independent School District, we offer readers of the Erlanger-Elsmere Independent School District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2013.

Financial Highlights

- The beginning cash balance for the District was \$4,359 thousand and the ending balance is \$4,015 thousand.
- A concerted effort, focused on purchasing in the areas of supplies, food, and travel, resulted in several economies due to changed management strategies and current economic conditions.
- The utility tax generated \$854 thousand in revenue for fiscal year 2013, versus the \$908 thousand in the fiscal year 2012.
- Fiscal year 2013 capital asset additions totaled \$3,135 thousand. Equipment purchases of \$26 thousand were for technology equipment and \$148 thousand for other equipment. \$3,010 thousand was expended for Phase III on a construction project that is to be completed in fiscal year 2014 at Lloyd Memorial High School.
- The District's on-behalf payments from the state were \$4,073 thousand in revenues and expenditures in fiscal year 2013, compared to \$3,825 thousand in fiscal year 2012.
- The District salaries increased approximately 6% or \$800 thousand in 2013. Payroll rates were increased 1% plus increased pay for employee step advancement accounted for approximately \$600 thousand of the increase. The District also created 4 new positions accounting for \$200 thousand in salaries.
- The General Fund had \$18,462 thousand in revenue, which primarily consisted of state program monies (SEEK), and local property, utility and motor vehicle taxes. Excluding interfund transfers, there was \$19,450 thousand in General Fund expenditures for the fiscal year.
- Bonds are issued as the District renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education's (KDE) stringent compliance regulations. The District repaid long term bond debt of \$1,082 thousand and incurred new borrowings of \$3,425 thousand for Lloyd Memorial High School Phase III improvements. Therefore, net long-term bond debt increased \$2,343 thousand during fiscal year 2013.
- State law requires Districts to update a priority list of construction and renovation needs, called a local facilities plan. The document guides the allocation of School Facilities Construction Commission dollars. The current District Facilities Plan was last updated in fiscal year 2009.
- At June 30, 2013, the District has one major construction project in process (Lloyd Memorial High School – Phase 3 Improvements) that is estimated to cost \$3,442 thousand. In order to finance the project, the District issued \$3,425 thousand in new bond offerings during fiscal year 2013.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Erlanger-Elsmere Independent School District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Erlanger-Elsmere Independent School District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation, and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 9-10 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds, and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare, and teacher support. The only proprietary fund is our food service operation. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 11-12 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on page 18-33 of this report.

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$7,535 thousand at the close of the 2013 fiscal year.

The largest portion of the Districts' net position reflects its investment in capital assets; less any related debt used to acquire those assets that are still outstanding. The District's uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Position

Assets	2013	2012
Current & other assets	\$ 4,283,581	\$ 4,773,202
Noncurrent assets	22,035,493	19,875,527
Total Assets	26,319,074	24,648,729
Liabilities		
Current liabilities	1,948,975	1,653,457
Long-term liabilities	16,834,766	14,671,458
Total Liabilities	18,783,741	16,324,915
Net Position		
Invested in capital assets, net of related debt	4,286,091	4,746,409
Restricted	370,805	71,173
Unassigned fund balance	2,878,437	3,506,232
Total Net Position	\$ 7,535,333	\$ 8,323,814

The following are significant current year transactions that have had an impact on the Statement of Net Position.

The District acquired capital asset additions of \$3,085 thousand and incurred new debt of \$3,528 thousand during fiscal year 2013.

Comments on Budget Comparisons

- The District's total general fund revenue for the fiscal year ended June 30, 2013, net of capital lease proceeds, were \$18,462 thousand.
- General fund budget compared to actual revenue varied slightly from line item to line item excluding on-behalf payments, with the ending balance being about \$207 thousand over budget (favorable variance) or approximately 1.4%. The balance of revenues favorable variance is due to \$3,494 thousand in state revenues that result from on-behalf payments that were not budgeted for fiscal year 2013.
- The total cost of all programs and services was \$19,450 thousand.

- General fund budget expenditures to actual varied significantly unfavorable in instruction \$2,033 thousand. This resulted primarily from on-behalf payment expenditures of \$3,443 that was not budgeted as additional expenditures. Plant operations closed with a favorable variance of \$1,198 thousand, due to incurring less repair, maintenance, and utility costs than the amounts that were budgeted. Additionally, contingency expenses closed with a favorable variance of \$488 thousand as it was not needed. Overall, expenditures had a \$3,244 thousand favorable variance excluding the effect of not budgeting the state on-behalf expenditures.

The following table presents a summary of revenue and expenditures of the District's governmental funds for the fiscal year ended June 30, 2013.

	June 30, 2013	June 30, 2012
Revenues and Other Sources		
Local revenue sources	\$ 8,207,125	\$ 8,002,580
State revenue sources	12,256,265	12,202,954
Federal revenue sources	1,443,628	1,461,723
Other sources	50	6,921
Investments	19,864	18,034
Bond sale proceeds	3,333,155	-
Total Revenues	<u>\$ 25,260,087</u>	<u>\$ 21,692,212</u>
Expenses		
Instruction	\$ 14,065,073	\$ 13,481,009
Student support services	932,103	682,629
Instructional support	833,432	827,994
District administration	1,504,033	1,290,920
School administration	1,433,566	1,410,606
Business support	293,167	283,769
Plant operations	1,659,322	1,707,206
Student transportation	427,439	315,999
Community support	259,736	333,588
Facility acquisition	2,916,552	729,228
Other (debt service)	1,533,586	1,479,114
Total Expenses	<u>\$ 25,858,009</u>	<u>\$ 22,542,062</u>

General Fund Revenue

The majority of the revenues were derived from local taxes and state funding, about 32% and 56% respectively.

General Fund Budget Allocation

Site Based Decision Making Councils expended approximately 54% for regular instruction of the general fund budget. The remaining budget was expended primarily for support services.

School Support

School Support Services accounts for approximately 14% of the school level expenditures; this includes School Administration and Student Instructional support.

Central Support

Central support services expenditures account for approximately 32% of the General Fund budget, and consists of transportation, maintenance & operations, central office administrative functions and debt service.

Budgetary Implications

In Kentucky, the public school fiscal year is July 1 – June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with \$488 thousand in contingency (2.6%). The beginning cash balance for beginning the fiscal year is \$4,359 thousand.

Questions regarding this report should be directed to the Superintendent (859) 727-2009 or to, Director of Financial Services (859) 727-2009 or by mail at 500 Graves Avenue, Erlanger, KY 41018.

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Statement of Net Postion June 30, 2013
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	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Current Assets:			
Cash and cash equivalents	\$ 3,864,555	\$ 150,440	\$ 4,014,995
Inventory	-	60,499	60,499
Accounts receivable			
Taxes - current	33,629	-	33,629
Taxes - delinquent	41,350	-	41,350
Accounts receivable - other	25,953	23	25,976
Intergovernmental - state	129,335	-	129,335
Intergovernmental - indirect federal	188,759	113,638	302,397
Total Current Assets	4,283,581	324,600	4,608,181
Noncurrent Assets			
Capital assets	37,545,635	1,094,454	38,640,089
Less: accumulated depreciation	(15,510,142)	(658,792)	(16,168,934)
Total Noncurrent Assets	22,035,493	435,662	22,471,155
Total Assets	26,319,074	760,262	27,079,336
Liabilities			
Current liabilities:			
Accounts payable	258,721	3,050	261,771
Deferred revenue	27,303	-	27,303
Current portion of bond obligations	1,082,064	-	1,082,064
Current portion of capital lease obligations	44,171	-	44,171
Interest payable	536,716	-	536,716
Total Current Liabilities	1,948,975	3,050	1,952,025
Noncurrent Liabilities:			
Noncurrent portion of bond obligations	16,363,361	-	16,363,361
Noncurrent portion of capital lease obligations	259,806	-	259,806
Accrued sick leave	211,599	-	211,599
Total Noncurrent Liabilities	16,834,766	-	16,834,766
Total Liabilities	18,783,741	3,050	18,786,791
Net Position			
Invested in capital assets, net of related debt	4,286,091	435,662	4,721,753
Restricted for:			
Capital projects/debt service	366,231	-	366,231
Debt service	4,574	-	4,574
Food service	-	321,550	321,550
Unrestricted	2,878,437	-	2,878,437
Total Net Position	\$ 7,535,333	\$ 757,212	\$ 8,292,545

The accompanying notes are an integral part of these financial statements.

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT**Statement of Activities****For the Year Ended June 30, 2013**

Functions/Programs:	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Governmental Activities:						Total
Instruction	\$ 14,430,271	\$ -	\$ 1,604,306	\$ -	\$ (12,825,965)	\$ (12,825,965)
Support services:						
Student	971,762	-	44,006	-	(927,756)	(927,756)
Instruction staff	845,529	-	77,223	-	(768,306)	(768,306)
District administrative	1,558,441	-	-	-	(1,558,441)	(1,558,441)
School administrative	1,460,504	-	-	-	(1,460,504)	(1,460,504)
Business	293,723	-	-	-	(293,723)	(293,723)
Plant operation and maintenance	1,766,408	-	-	-	(1,766,408)	(1,766,408)
Student transportation	369,308	-	2,236	-	(367,072)	(367,072)
Facilities acquisition and construction	446	-	-	-	(446)	(446)
Community service activities	266,045	-	235,718	-	(30,327)	(30,327)
Interest on long-term debt	753,203	-	-	1,021,959	268,756	268,756
Total Governmental Activities	22,715,640	-	1,963,489	1,021,959	(19,730,192)	(19,730,192)
Business-Type Activities:						
Food service	1,371,815	278,817	1,080,438	-	-	(12,560)
Total Business-Type Activities	1,371,815	278,817	1,080,438	-	-	(12,560)
Total Primary Government	\$ 24,087,455	\$ 278,817	\$ 3,043,927	\$ 1,021,959	(19,730,192)	(19,742,752)
General Revenues:						
Taxes:						
			Property taxes		6,646,067	6,646,067
			Motor vehicle taxes		525,137	525,137
			Utility taxes		853,825	853,825
			Other taxes		31,532	31,532
			Investment earnings		19,864	19,864
			State and federal grants		10,718,349	10,718,349
			Gain(loss) on disposal of fixed assets		(136)	(136)
			Miscellaneous/other		147,073	147,073
Total General Revenues and Transfers					18,941,711	18,941,711
Change in net position					(788,481)	(801,041)
Net position - Beginning					8,323,814	9,093,586
Net position - Ending					\$ 7,535,333	\$ 8,292,545

The accompanying notes are an integral part of these financial statements.

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT**Balance Sheet - Governmental Funds****June 30, 2013**

	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents (Overdraft)	\$ 3,446,965	\$ (156,858)	\$ 569,874	\$ 4,574	\$ 3,864,555
Accounts receivable:					-
Taxes - current	33,629	-	-	-	33,629
Taxes - delinquent	5,065	-	-	-	5,065
Accounts receivable	25,953	-	-	-	25,953
Intergovernmental - state	129,335	-	-	-	129,335
Intergovernmental - federal	4,598	184,161	-	-	188,759
Total Assets	\$ 3,645,545	\$ 27,303	\$ 569,874	\$ 4,574	\$ 4,247,296
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 55,078	\$ -	\$ 203,643	\$ -	\$ 258,721
Deferred revenue	-	27,303	-	-	27,303
Total Liabilities	55,078	27,303	203,643	-	286,024
Fund Balances:					
Restricted for:					
Accrued sick leave	211,599	-	-	-	211,599
Restricted for:					
Purchase obligations	-	-	-	-	-
Capital project funds	-	-	366,231	-	366,231
Debt service funds	-	-	-	4,574	4,574
Unassigned	3,378,868	-	-	-	3,378,868
Total Fund Balances	3,590,467	-	366,231	4,574	3,961,272
Total Liabilities and Fund Balances	\$ 3,645,545	\$ 27,303	\$ 569,874	\$ 4,574	\$ 4,247,296

Amounts reported for governmental activities in the statement of net position are different because:

Total Fund Balance per Fund Financial Statements	\$ 3,961,272
Capital asset are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net position	22,035,493
Property tax to collect this year	36,285
Certain liabilities(such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net position.	(18,497,717)
Net position for governmental activities	<u>\$ 7,535,333</u>

The accompanying notes are an integral part of these financial statements.

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Statement of Revenue, Expenditures, and Changes in Fund Balances - Governmental Funds For the Year Ended June 30, 2013
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	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
From local sources					
Taxes:					
Property	\$ 6,166,028	\$ -	\$ -	\$ 479,627	\$ 6,645,655
Motor vehicle	525,137	-	-	-	525,137
Utilities	853,824	-	-	-	853,824
Other	31,532	-	-	-	31,532
Earnings on investments	19,864	-	-	-	19,864
Other local revenues	147,073	3,904	-	-	150,977
Intergovernmental - state	7,178,068	562,488	-	443,100	8,183,656
Intergovernmental - state on behalf	3,493,750	-	-	578,859	4,072,609
Intergovernmental - indirect federal	-	1,374,459	-	-	1,374,459
Intergovernmental - direct federal	46,531	22,638	-	-	69,169
Total Revenues	18,461,807	1,963,489	-	1,501,586	21,926,882
Expenditures					
Instruction	12,460,767	1,604,306	-	-	14,065,073
Support services:					
Student support	888,097	44,006	-	-	932,103
Instruction staff	724,287	109,145	-	-	833,432
District administrative	1,504,033	-	-	-	1,504,033
School administrative	1,433,566	-	-	-	1,433,566
Business	293,167	-	-	-	293,167
Plant operation and maintenance	1,659,322	-	-	-	1,659,322
Student transportation	425,203	2,236	-	-	427,439
Facilities acquisition and construction	-	-	2,916,106	446	2,916,552
Community service activities	24,018	235,718	-	-	259,736
Other(debt service)	37,897	-	44,682	1,451,007	1,533,586
Total Expenditures	19,450,357	1,995,411	2,960,788	1,451,453	25,858,009
Excess (deficiency) of revenues over (under) expenditures	(988,550)	(31,922)	(2,960,788)	50,133	(3,931,127)
Other Financing Sources (Uses)					
Proceeds from borrowings	103,155	-	3,230,000	-	3,333,155
Sale of equipment	50	-	-	-	50
Operating transfers in	-	31,922	212,228	876,722	1,120,872
Operating transfers (out)	(137,999)	-	-	(982,873)	(1,120,872)
Total Other Financing Sources (Uses)	(34,794)	31,922	3,442,228	(106,151)	3,333,205
Net Change in Fund Balances	(1,023,344)	-	481,440	(56,018)	(597,922)
Fund Balances - Beginning	4,613,811	-	(115,209)	60,592	4,559,194
Fund Balances - Ending	\$ 3,590,467	\$ -	\$ 366,231	\$ 4,574	\$ 3,961,272

The accompanying notes are an integral part of these financial statements.

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES For the Year Ended June 30, 2013

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ (597,922)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays were less than depreciation in the current period.	2,160,152
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In the statement of activities, the loss on the disposal of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. The change in net position differs from the change in fund balance by the cost of the assets disposal, net of related accumulated depreciation.	(186)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This year's amount is \$36,285 and last year's amount was \$35,873.	412
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The proceeds of debt issuance provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. \$3,425,000 of new bonds and \$103,155 capitalized leases were issued in the fiscal year and principal repayments were \$907 (2,620,283)	
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Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds. These include the decrease in non-current portion of accrued sick leave of (\$246,516), and a decrease in accrued interest of (\$22,830).	<u>269,346</u>
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Change in net position of governmental activities	<u><u>\$ (788,481)</u></u>
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The accompanying notes are an integral part of these financial statements.

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT**Statement of Net Position - Proprietary Fund****June 30, 2013****Assets****Current Assets:**

Cash	\$ 150,440
Inventory	60,499
Accounts receivable: other	23
Intergovernmental - indirect federal	113,638

Total Current Assets324,600**Noncurrent Assets:**

Capital assets	1,094,454
Less: accumulated depreciation	(658,792)

Total Noncurrent Assets435,662**Total Assets**760,262**Liabilities****Current Liabilities:**

Accounts payable	3,050
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Total Current Liabilities3,050**Net Position**

Invested in capital assets, net of related debt	435,662
Restricted - Food Service	321,550

Total Net Position\$ 757,212

The accompanying notes are an integral part of these financial statements.

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT**Statement of Revenues, Expenditures, and Changes in Net Position****Proprietary Fund****For the Year Ended June 30, 2013****Operating Revenues**

Lunchroom sales	\$ 267,045
Other operating revenues	11,772

Total Operating Revenues	<u>278,817</u>
---------------------------------	----------------

Operating Expenses

Salaries and wages	473,295
Employee benefits	184,105
Materials and supplies	584,221
Depreciation	72,184
Other operating expenses	58,010

Total Operating Expenses	<u>1,371,815</u>
---------------------------------	------------------

Operating Income (Loss)	<u>(1,092,998)</u>
--------------------------------	--------------------

Nonoperating Revenues

Federal grants	918,908
Donated commodities	72,382
Intergovernmental - state	12,543
Intergovernmental - state on behalf	76,605

Total nonoperating revenues	<u>1,080,438</u>
------------------------------------	------------------

Net Income (Loss)	(12,560)
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Total Net Position - Beginning	<u>769,772</u>
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Total Net Position - Ending	<u><u>\$ 757,212</u></u>
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The accompanying notes are an integral part of these financial statements.

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Statement of Cash Flows - Proprietary Funds For the Year Ended June 30, 2013
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Cash Flows From Operating Activities

Cash received from:	
Lunchroom sales	\$ 267,045
Government grants	913,106
Other activities	11,749
Cash paid to/for:	
Employees	(580,795)
Supplies	(518,191)
Other activities	(55,940)

Net Cash Provided By Operating Activities	<u>36,974</u>
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Cash Flows From Capital And Related Financing Activities

Purchases of capital assets	(48,841)
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Net Cash Provided (Used) By Capital And Related Financing Activities	<u>(48,841)</u>
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Cash Flows From Investing Activities

Interest income	-
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Net Cash Provided By Investing Activities	<u>-</u>
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Net Decrease in Cash	(11,867)
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Cash - Beginning of Period	<u>162,307</u>
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Cash - End of Period	<u><u>\$ 150,440</u></u>
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Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating Income (Loss)	\$ (12,560)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	72,184
Change in assets and liabilities:	
Receivables	(18,368)
Inventory	(6,352)
Accounts payable	2,070

Net Cash Provided by Operating Activities	<u><u>\$ 36,974</u></u>
--	-------------------------

Schedule of Non-Cash Transaction

Donated commodities received from the federal government	\$ 72,382
On-behalf payment	76,605
Depreciation	72,184

Total Non-Cash Transactions	<u><u>\$ 221,171</u></u>
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The accompanying notes are an integral part of these financial statements.

Erlanger-Elsmere Independent School District Statement of Fiduciary Net Position - Fiduciary Funds June 30, 2013

	Agency Fund
Assets	
Cash and cash equivalents	\$ 257,692
Accounts Receivable	4,510
Total Assets	<u>262,202</u>
Liabilities	
Accounts payable	2,932
Due to student groups	259,270
Total liabilities	<u>262,202</u>
Net Position of Fiduciary Funds Held in Trust	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Notes to the Financial Statements June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Erlanger-Elsmere Independent School District is governed by the Erlanger-Elsmere Board of Education ("Board"), a five-member group which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Erlanger-Elsmere Independent School District (District). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Erlanger-Elsmere Independent School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Erlanger-Elsmere Independent School District Finance Corporation – In 1992 the Board of Education resolved to authorize the establishment of the Erlanger-Elsmere Independent School District Finance Corporation (a non-profit,, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors.

Basis of Presentation

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2013

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment is applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types:

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on page 39. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2013

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan.
2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

(D) Debt Service Funds

The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Types (Enterprise Fund)

- (A) The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service is a major fund. The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

- (A) The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2013

the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used of the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expensed, and changes in net position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreased in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are recognized in governmental funds.

Property Taxes

Property taxes are levied each September on the assessed value listed as of the prior January¹, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2013, to finance the General Fund operations were \$.77.4 per \$100 valuation for real property, \$.77.4 per \$100 for business personal property and \$.671 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within District's boundaries, of telephone and telegraphic

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2013

communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computer, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	Governmental Activities
	<u>Estimated Lives</u>
Buildings and Improvements	25-50 years
Land Improvements	20 years
Technology Equipment	5 years
Vehicles	5-10 years
General	15 years
Food Service Equipment	10-12 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental business-type activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2013

based on the School District's past experience of making termination payments. The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Notes to the Financial Statements June 30, 2013

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Classification

The governmental fund financial statements present fund balances based on classification that comprise a hierarchy that is based primarily on the extent to which the district is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in governmental fund financial statements are as follows:

Non-spendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The district did not have any non-spendable resources at June 30, 2013.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of governments, or (b) imposed by law through constitutional provisions or enabling legislature. The district has classified sick leave, KSFCC escrow, capital projects, and debt service resources as being restricted.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the board. These amounts cannot be used for any other purpose unless the board removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed.

This classification also includes contractual obligations to the extent that existing resources have been specifically committed for the use in satisfying those contractual requirements. The district did not have any committed resources as of June 30, 2013.

Assigned: This classification includes the amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility to the District's manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The District had assigned resources as of June 30, 2013.

Unassigned: This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balances of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2013

The District would typically use *Restricted* fund balance first, followed by *Committed* resources, and then *Assigned* resources, as appropriate opportunities arise, but reserves the right to selectively spend *Unassigned* resources first to defer the use of these other classified funds.

Net Position

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating Revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from fund responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT**Notes to the Financial Statements****June 30, 2013****NOTE B – ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

At year-end the carrying amount of the District's total cash and cash equivalents was \$4,764,717. Of the total cash balance, \$254,574 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2013 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
General checking	\$ 4,499,691	\$ 4,010,421
School activity	260,449	257,692
Debt Service	<u>4,574</u>	<u>4,574</u>
	<u>\$ 4,764,714</u>	<u>\$ 4,272,687</u>

Breakdown per financial statements:

Governmental funds	\$ 3,864,555
Proprietary funds	150,440
Agency funds	<u>257,693</u>
	<u>\$ 4,272,687</u>

NOTE D – INVESTMENTS

The District had no investments at June 30, 2013.

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Notes to the Financial Statements June 30, 2013

NOTE E – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance			Balance
Governmental Activities	June, 30 2012	Additions	Deductions	June 30, 2013
Land	\$ 665,532	\$ -	\$ -	\$ 665,532
Land improvement	1,235,657	-	-	1,235,657
Buildings and improvements	28,428,974	-	-	28,428,974
Technology equipment	2,559,930	25,668	58,729	2,526,869
General equipment	476,282	-	-	476,282
Vehicles and machinery	1,111,636	99,469	74,781	1,136,324
Construction in progress	115,209	2,960,788	-	3,075,997
Totals at historical cost	<u>34,593,220</u>	<u>3,085,925</u>	<u>133,510</u>	<u>37,545,635</u>
Less: accumulated depreciation				
Land improvements	1,032,769	27,901	-	1,060,670
Buildings and improvements	10,617,590	621,715	-	11,239,305
Technology equipment	1,974,020	190,238	58,543	2,105,715
General equipment	308,799	26,078	-	334,877
Vehicles and Machinery	784,515	59,841	74,781	769,575
Total accumulated depreciation	<u>14,717,693</u>	<u>925,773</u>	<u>133,324</u>	<u>15,510,142</u>
Governmental Activities				
Capital Assets – Net	<u>\$ 19,875,527</u>	<u>\$ 2,160,152</u>	<u>\$ 186</u>	<u>\$ 22,035,493</u>
	Balance			Balance
Business-Type Activities	June 30, 2012	Additions	Deductions	June 30, 2013
Food service equipment	\$ 1,047,426	\$ -	\$ 1,813	\$ 1,045,613
Construction in progress	-	48,841	-	48,841
Totals at historical cost	<u>1,047,426</u>	<u>48,841</u>	<u>1,813</u>	<u>1,094,454</u>
Less: accumulated depreciation	<u>588,421</u>	<u>72,184</u>	<u>1,813</u>	<u>658,792</u>
Business-Type Activities				
Capital Assets – Net	<u>\$ 459,005</u>	<u>\$ (23,343)</u>	<u>\$ -</u>	<u>\$ 435,662</u>

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2013

Depreciation was charged to governmental activities functions as follows:

Instruction	\$ 611,714
Student Support Services	39,659
Instructional Staff Support Services	12,097
Direct Administration Support	54,408
School Administration Support Services	26,938
Community Services	6,309
Business Support Services	556
Plant Operations & Maintenance	132,754
Student Transportation	41,338
	<hr/>
Total Depreciation	<u>\$ 925,773</u>

NOTE F – BONDED DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements lease obligations represents the District's future obligation to make lease payments relating to the bonds issued by the Fiscal Court of Kenton County, Kentucky and the Erlanger-Elsmere Independent School District Financial Corporation aggregating \$ 22,244,989.

The following summarizes the original amount of each issue, the issue date and interest rates:

2007	\$ 4,775,000	4.0% - 4.00%
2008	3,950,000	2.20% - 4.375%
2009 Refunded	1,465,000	1.00% - 3.400%
2009 KISTA Refunded	278,890	1.00% - 3.250%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Kenton County Fiscal Court to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In 1992, the District entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements. The bonds may be called prior to maturity and redemption premiums are specified in each issue.

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2013

Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2013 for debt service (principle and interest) are as follows:

Year	District Portion Erlanger-Elsmere		KSCC Portion KSCC		Total
	Principle	Interest	Principle	Interest	
2013-2014	\$ 529,405	\$ 347,124	\$ 552,659	\$ 203,078	\$ 1,632,266
2014-2015	538,711	331,237	564,887	189,592	1,624,427
2015-2016	559,100	314,840	560,050	177,306	1,611,296
2016-2017	578,274	296,089	571,414	164,681	1,610,458
2017-2018	596,896	276,116	588,303	151,510	1,612,825
2018-2019	618,231	252,913	577,496	136,809	1,585,449
2019-2020	637,924	232,500	427,076	121,618	1,419,118
2020-2021	655,780	211,260	434,220	111,475	1,412,735
2021-2022	682,554	188,216	447,446	100,199	1,418,415
2022-2023	703,771	163,815	461,229	88,264	1,417,079
2023-2024	729,424	138,153	470,576	75,640	1,413,793
2024-2025	660,476	109,537	314,524	62,261	1,146,798
2025-2026	689,331	82,278	325,669	52,427	1,149,705
2026-2027	717,898	53,687	337,101	42,029	1,150,715
2027-2028	345,330	23,208	239,670	30,901	639,109
2028-2029	357,811	7,827	232,189	23,552	621,379
2029-2030	-	-	185,000	17,483	202,483
2030-2031	-	-	190,000	12,420	202,420
2031-2032	-	-	195,000	7,223	202,223
2032-2033	-	-	170,000	2,295	172,295
Total	<u>\$ 9,600,916</u>	<u>\$ 3,028,800</u>	<u>\$ 7,844,509</u>	<u>\$ 1,770,763</u>	<u>\$ 22,244,988</u>

The following is a summary of the District's long-term debt transactions for the year ended June 30, 2013:

	Beginning Balance	Additions	Deductions	Ending Balance
Bonds	\$ 14,020,425	\$ 3,425,000	\$ 1,082,064	\$ 16,363,361
Capital Leases	192,918	103,155	36,267	259,806
Sick Leave	458,115	-	246,516	211,599
Total	<u>\$ 14,671,458</u>	<u>\$ 3,528,155</u>	<u>\$ 1,364,847</u>	<u>\$ 16,834,766</u>

NOTE G – CAPITAL LEASE PAYABLE

The following is analysis of the leased property under capital lease by class:

Classes of Property	Book value as of June 30, 2013
Buses	<u>\$ 197,666</u>

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Notes to the Financial Statements June 30, 2013

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2012:

Year Ending June 30,	2010 Bus Lease	2011 Bus Lease	2013 Bus Lease	Total
2014	\$ 7,738	\$ 23,063	\$ 13,370	44,171
2015	7,764	23,141	13,327	44,232
2016	7,752	23,046	11,414	42,212
2017	7,745	26,068	11,401	42,214
2018	6,484	23,029	11,384	40,897
2019	6,478	23,005	11,437	40,920
2020	-	19,148	11,411	30,559
2021	-	19,088	11,455	30,543
2022	-	-	9,518	9,518
2023	-	-	9,518	9,518
Total minimum lease payments	43,961	179,588	114,235	337,784
Less: Amount representing interest	(4,834)	(17,893)	(11,080)	(33,807)
Present Value of Net Minimum Lease Payment	\$ 39,127	\$ 161,695	\$ 103,155	\$303,977

NOTE H – COMMENTS UNDER NONCAPITALIZED LEASES

The District had no commitments under operating lease agreements as of June 30, 2013

NOTE I – RETIREMENT PLANS

Certified employees are covered under the Kentucky Teachers Retirement System ("KTRS"). Funding for the Plan is provided through payroll withholdings of 10.855% for employees and matching state contributions required, are 13.355% and 14.105% of salaries respectively, based on date hired. The matching contributions are paid by the Federal programs for any salaries paid by the program.

Substantially all other employees (classified personnel) are covered under the County Employees Retirement System ("CERS"), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% and a Board contribution of 19.55% of the employee's total compensation subject to contribution.

The Board's total payroll for the year was approximately \$14,000,000 for the fiscal year ended June 30, 2013. The payroll for employees covered under KTRS was approximately \$10,826,000 and for CERS was \$3,107,000 for the fiscal year.

The contribution requirement for CERS for the year ended June 30; 2013 was \$769,160 which consisted of \$607,481 from the Board and \$161,679 from the employees. The Board paid \$203,227 from federal grant monies to KTRS in matching contributions for federally funded employees and the Commonwealth contributed \$1,068,564 to KTRS for the benefit of our participating employees. Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2013

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans' status as a whole, derived from the latest actuarial valuations performed as of the dates indicated:

	Dollar amounts in millions	
	(Non-Hazardous)	
	KTRS	CERS
	June 30, 2011	June 30, 2011
Assets Available for Benefits, at Fair Value	\$ 14,908	\$ 5,577
Pension Benefit Obligation	<u>25,969</u>	<u>8,918</u>
Underfunded/Overfunded Pension Benefit Obligations	<u>\$ (11,061)</u>	<u>\$ (3,341)</u>

Historical trend information shows KTRS's and CER's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2013 comprehensive annual financial reports.

As the District is only one of several employees participating in the Plan, it is not practicable to determine the District's portion of the unfunded past service cost or the vested benefits of the District's portion of the Plan assets.

Both plans were created by the Kentucky General Assembly and they issued publicly available financial reports.

The District also offers employees the option to participate in a defined contribution plan under section 403(B), 401(K) and 4457 of the Internal Revenue Code. All regular full-time and certain part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans.

NOTE J – CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being sent as intended and grantors' intent to continue their programs.

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

June 30, 2013

NOTE K – LITIGATION

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress.

NOTE L – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risks areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which include Workers' Compensation Insurance.

NOTE M – ACCUMULATED UNPAID SICK LEAVE

Upon retirement from the school system, an employee who meets requirements will receive from the District an amount equal to 30% of the value of accumulated sick leave. At June 30, 2013, this amount totaled \$211,599 for those employees eligible to retire, which is the amount reserved in the current year fund balance of the General Fund. Presently, the District has been notified of no retirements for fiscal year 2013, therefore accumulated unpaid sick leave benefits is zero for current liabilities for June 30, 2013.

NOTE N – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. The District pays annual premiums for various insurance coverage. To obtain insurance of workers' compensations, errors and omissions, and general liability coverage, for fiscal year 2013 the District bid for these services. The bids produced a savings to the District for workmen's compensation coverage and the auto, property and liability insurances.

The District purchases unemployment insurance through KSBA Insurance; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE O – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT**Notes to the Financial Statements****June 30, 2013****NOTE P – DEFICIT FUND AND OPERATING BALANCES**

No fund of the District has a deficit fund balance. The following funds have operations that resulted in a current year deficit of revenues under expenditures resulting in a corresponding reduction of fund balance:

General Fund	\$ (1,023,344)
FSPK Fund	(60,592)

NOTE Q- TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Operating	General	Debt Service	Debt Service	\$ 106,078
Matching	General	Special Revenue	Technology Match	31,922
Operating	Building	Debt Service	Debt Service	571,135
Operating	Capital Outlay	Debt Service	Debt Service	199,509
Operating	Building	Construction	Building Project	212,228
				<u>\$1,120,872</u>

NOTE R – ON-BEHALF PAYMENTS

The financial statements included payments made by the Commonwealth of Kentucky for insurance, flexible spending, vocational and retirement benefits.

Purpose	Amount
Instruction	\$ 2,808,807
Support Services	
Student	81,112
Instructional Staff	76,605
District Administration	132,933
School Administration	182,501
Business	36,050
Plant Operation & Maintenance	137,439
Student Transportation	38,303
Food Service	76,605
Total	<u>\$ 3,570,355</u>

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET TO ACTUAL - GENERAL FUND
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
Revenues				Positive
From local sources				(Negative)
Taxes:				
Property	\$ 6,021,734	\$ 6,021,734	\$ 6,166,028	\$ 144,294
Motor vehicle	463,688	463,688	525,137	61,449
Utilities	870,000	870,000	853,824	(16,176)
Other	30,000	30,000	31,532	1,532
Earnings on investments	21,000	21,000	19,864	(1,136)
Other local revenues	177,300	131,800	147,073	15,273
Intergovernmental - state	7,100,680	7,197,376	7,178,068	(19,308)
Intergovernmental - state of behalf	-	-	3,493,750	3,493,750
Intergovernmental - direct federal	25,000	25,000	46,531	21,531
Total Revenues	14,709,402	14,760,598	18,461,807	3,701,209
Expenditures				
Instruction	10,376,655	10,428,041	12,460,767	(2,032,726)
Support Services:				
Student	911,445	893,445	888,097	5,348
Instruction staff	669,186	669,758	724,287	(54,529)
District administrative	1,877,059	1,897,059	1,504,033	393,026
School administrative	1,247,628	1,252,823	1,433,566	(180,743)
Business	257,732	257,732	293,167	(35,435)
Plant operation and maintenance	2,833,932	2,856,978	1,659,322	1,197,656
Student transportation	377,216	377,216	425,203	(47,987)
Community service activities	23,500	23,500	24,018	(518)
Other - Debt Service	55,309	55,309	37,897	17,412
Contingency	488,000	488,000	-	488,000
Total Expenditures	19,117,662	19,199,861	19,450,357	(250,496)
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(4,408,260)	(4,439,263)	(988,550)	3,450,713
Other Financing Sources (Uses)				
Proceeds capital leases			103,155	103,155
Proceeds from sale of fixed assets	999	999	50	(949)
Operating transfers out	(31,925)	(31,922)	(137,999)	(106,077)
Total Other Financing Sources (Uses)	(30,926)	(30,923)	(34,794)	(3,871)
Net Change in Fund Balances	(4,439,186)	(4,470,186)	(1,023,344)	3,446,842
Fund Balances - Beginning	4,439,186	4,439,186	4,613,811	174,625
Fund Balances - Ending	\$ -	\$ (31,000)	\$ 3,590,467	\$ 3,621,467

The accompanying notes are an integral part of these financial statements.



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

Charles A. Van Gorder, CPA
John P. Walker, CPA, MBA
Lori A. Owen, CPA
John R. Chamberlin, CPA, MBA
Members of AICPA & KyCPA
Licensed in Kentucky & Ohio

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

**Members of the Board of Education
Erlanger-Elsmere Independent School District
Erlanger, Kentucky**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the provisions of office of Management and Budget Circular A-133, Audits of States and Local Governments, and the requirements prescribed by Appendices I and II to the *Independent Auditor's Contract*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Erlanger-Elsmere Independent School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise and the Erlanger-Elsmere Independent School District's basic financial statements, and have issued our report thereon dated October 15, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Erlanger-Elsmere Independent School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Erlanger-Elsmere Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Erlanger-Elsmere Independent School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. Management is responsible for establishing and maintaining effective internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Erlanger-Elsmere Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in the *Independent Auditor's Contract*.

We noted certain matters that we reported to management of the Erlanger-Elsmere Independent School District in separate letter dated October 15, 2013.

Purpose of this Report

The purpose of this report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Van Gorder, Walker & Co., Inc.

Van Gorder, Walker, & Co., Inc.
Erlanger, Kentucky
October 15, 2013



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

**Members of the Board of Education
Erlanger-Elsmere Independent School District
Erlanger, Kentucky**

Report on Compliance for Each Major Program

We have audited the Erlanger-Elsmere Independent School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Erlanger-Elsmere Independent School District's major federal programs for the year ended June 30, 2013. Erlanger-Elsmere Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

The Erlanger-Elsmere Independent School District's management is responsible for the compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Erlanger-Elsmere Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and *Appendices I and II to the Independent Auditor's Contract*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Erlanger-Elsmere Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the Erlanger-Elsmere Independent School District's compliance.



Opinion on Each Major Federal Program

In our opinion, the Erlanger-Elsmere Independent School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Internal Control Over Compliance

The management of Erlanger-Elsmere Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Erlanger-Elsmere Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Erlanger-Elsmere Independent School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

This purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Van Gorder, Walker, & Co., Inc.
Erlanger, Kentucky
October 15, 2013

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2013

U.S. Department of Education	CFDA Number	Pass Through Number	Expenditures	Totals
<i>Passed through the Kentucky Department of Education</i>				
Title I Grants to Local Educational Agencies				
Fiscal Year 2012-2013	84.010	310.12	\$ 596,920	
Fiscal Year 2011-2012	84.010	310.11	78,191	
Total Title I Cluster				\$ 675,111
Grants to State (IDEA-Part B)				
Fiscal Year 2012-2013	84.027	381.12	523,234	
Preschool Grants (IDEA-Preschool)				
Fiscal Year 2012-2013	84.173	380.12	16,839	
Total Special Education Cluster				540,073
Improving Teacher Quality-State Grants 2012	84.367	323.11	80,355	80,355
Curriculum Development-Bi-Lingual (Title 3) 2013	84.365	330.12	23,772	
Curriculum Development-Bi-Lingual (Title 3) 2012	84.365	330.11	6,509	30,281
EDU JOBS - 2010	84.410	EJOB	3,601	3,601
Race to Top - 2013	84.413A	N/A	6,809	6,809
Passed through the Northern Kentucky Cooperative for Educational Services:				
NKCES Secondary Counseling Program	84.215E	N/A	38,229	38,229
Total Department of Education				1,374,459
<u>U.S. DEPARTMENT OF AGRICULTURE</u>				
<i>Passed through the Kentucky Department of Education</i>				
National School Lunch Program (NSLP) 2012	10.555	7750002	115,453	
School Breakfast Program (SBP) 2012	10.553	7760005	35,928	
National School Lunch Program (NSLP) 2013	10.555	7750002	556,480	
School Breakfast Program (SBP) 2013	10.553	7760005	172,546	
Fruit/Vegetable Grant	10.582	7720012	1,858	
Commodities (NSLP)	10.555	N/A	72,382	
School Program - Summer	10.559	7740023	36,643	
Total Child Nutrition Cluster 2012-2013				991,290
Total U.S. Department of Agriculture				991,290
<u>U.S. Department of Health and Human Services</u>				
<i>Direct Payments to Local School District</i>				
Drug Free Communities Grant 2012	93.276	N/A	22,638	22,638
Social Security Administration Medical Assistance Program	93.778	N/A	46,531	46,531
Total U.S. Department of Health and Human Services				69,169
TOTAL FEDERAL FINANCIAL AWARDS				\$ 2,434,918

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT**Notes to the Schedule of Expenditures of Federal Awards****June 30, 2013****NOTE A – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Erlanger/Elsmere School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities used in the amount of \$ 72,382. These commodities were used to supplement the National School Lunch Program.

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT SCHEDULE OF FINDINGS AND QUESTIONED COSTS Year Ended June 30, 2013
--

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes X No
- Significant deficiencies identified? Yes X None reported

Noncompliance material to financial statements noted Yes X No

Federal Awards

Internal Control Over Major Programs:

- Material weakness(es) identified? Yes X No
- Significant deficiencies identified? Yes X None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133: Yes X No

Identification of major programs:
Federal Program or Cluster

CFDA Numbers

Child Nutrition Cluster

10.555, 10.553, 10.582, 10.559

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X Yes No

II. FINDINGS - FINANCIAL STATEMENTS AUDIT

No matters were reported

III. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

No matters were reported

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Schedule of Prior Year Audit Findings Year Ended June 30, 2013
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NONE

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT**Combining Balance Sheet - Non-Major Governmental Funds****June 30, 2013**

	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Assets and Resources				
Cash and cash equivalents	\$ -	\$ -	\$ 4,574	\$ 4,574
Total Assets and Resources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,574</u>	<u>\$ 4,574</u>
Liabilities and Fund Balances:				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Assigned for				
Debt service	-	-	4,574	4,574
Total Fund Balance	<u>-</u>	<u>-</u>	<u>4,574</u>	<u>4,574</u>
Total Liabilities and Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,574</u>	<u>\$ 4,574</u>

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Non-Major Governmental Funds For the Year Ended June 30, 2013
--

	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	Total Non-Major Governmental Funds
Revenues - From Local Source				
Property taxes	\$ 479,627	\$ -	\$ -	\$ 479,627
Intergovernmental - state	243,591	199,509	578,859	1,021,959
Total Revenues	<u>723,218</u>	<u>199,509</u>	<u>578,859</u>	<u>1,501,586</u>
Expenditures				
Facilities and construction	446	-	-	446
Other debt service	-	-	1,451,007	1,451,007
Total Expenditures	<u>446</u>	<u>-</u>	<u>1,451,007</u>	<u>1,451,453</u>
Excess of revenues over (under) expenditures	<u>722,772</u>	<u>199,509</u>	<u>(872,148)</u>	<u>50,133</u>
Other Financing Sources (Uses)				
Operating transfers in	-	-	876,722	876,722
Operating transfers (out)	(783,364)	(199,509)	-	(982,873)
Total Other Financing Sources (Uses)	<u>(783,364)</u>	<u>(199,509)</u>	<u>876,722</u>	<u>(106,151)</u>
Excess (deficit) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(60,592)</u>	<u>-</u>	<u>4,574</u>	<u>(56,018)</u>
Fund Balance, July 1, 2012	<u>60,592</u>	<u>-</u>	<u>-</u>	<u>60,592</u>
Fund Balance, June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,574</u>	<u>\$ 4,574</u>

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Statement of Receipts and Disbursements - School Activity Funds For the Year Ended June 30, 2013
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Lloyd Memorial High School	Cash Balance June 30, 2012	Receipts	Disbursements	Cash Balance June 30, 2013
Senior Class	\$ -	\$ 1,815	\$ 1,815	\$ -
Drama	-	1,107	-	1,107
Junior Class	1,808	10,178	8,202	3,784
Sophomore Class	3,314	443	222	3,535
Art Fees	2,818	999	1,818	1,999
Athletic Department	19,985	46,265	45,401	20,849
Art Club	77	-	-	77
Book Rental	11,584	9,605	14,702	6,487
Girls Tennis	55	2,758	2,532	281
Special Olympics	-	1,802	1,232	570
Academic Team	144	-	-	144
Tatler	944	235	256	923
Ensor Scholarship	28,388	1,000	600	28,788
Library	561	482	373	670
General Fund	3,306	27,478	21,703	9,081
Miscellaneous	12,389	15,927	5,147	23,169
National Honor Society	628	951	529	1,050
Baseball	394	10,807	10,175	1,026
Cross Country	616	703	1,055	264
Java/Jugg/Café	1,168	387	391	1,164
Spanish Club	678	22	-	700
Veterans Wall Memorial	-	499	-	499
Student Council	2,564	3,797	2,378	3,983
Science Fees	1,393	2,249	2,345	1,297
Advanced Placement	162	2,354	2,000	516
Bowling Club	881	2,508	2,059	1,330
Yearbook	1,862	2,275	1,381	2,756
Debbie McKinley-Memorial	2,377	-	-	2,377
Varsity Cheerleaders	438	3,503	3,941	-
Office	1,687	2,993	4,467	213
Literature Fee	106	1,069	913	262
Sub Total	\$ 100,327	\$ 154,211	\$ 135,637	\$ 118,901

Continued on next page

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT Statement of Receipts and Disbursements - School Activity Funds - <i>Continued</i> For the Year Ended June 30, 2013

	Cash Balance June 30, 2012	Receipts	Disbursements	Cash Balance June 30, 2013
Sub-Total Carried Forward	\$ 100,327	\$ 154,211	\$ 135,637	\$ 118,901
JSA	998	4,815	4,699	1,114
Boys Basketball	3,102	23,323	24,356	2,069
Football	2,074	18,827	19,753	1,148
Girls Basketball	7,007	10,439	13,442	4,004
Track	2,504	1,198	1,071	2,631
Soccer	-	128	128	-
Softball	119	4,787	2,795	2,111
Volley Ball	435	1,789	1,560	664
Transportation	860	6,000	6,860	-
Freshman Class	731	1,219	993	957
Playhouse	-	2,167	2,167	-
Community Based Instruction	215	491	400	306
Field Trips	645	5,736	4,709	1,672
Pepsi	8,335	-	2,803	5,532
Gaming Account	100	7,314	5,872	1,542
Parking Pass	627	30	-	657
SubTotal	128,079	242,474	227,245	143,308
Less interfund transfer	-	(24,368)	(24,368)	-
Total High School	128,079	218,106	202,877	143,308
Middle School				
Tichenor	61,616	106,891	97,040	71,467
Total Middle School	61,616	106,891	97,040	71,467
Elementary Schools				
Dorothy Howell	13,853	26,465	34,269	6,049
Arnett	13,925	22,546	23,590	12,881
John W. Miles	10,038	30,405	35,380	5,063
A.J. Lindeman	22,009	29,498	32,583	18,924
Total Elementary Schools	59,825	108,914	125,822	42,917
Total All Schools	\$ 249,520	\$ 433,911	\$ 425,739	\$ 257,692



Van Gorder, Walker & Co., Inc.
Certified Public Accountants

Charles A. Van Gorder, CPA
John P. Walker, CPA, MBA
Lori A. Owen, CPA
John R. Chamberlin, CPA, MBA
Members of AICPA & KyCPA
Licensed in Kentucky & Ohio

**Members of the Board of Education
Erlanger-Elsmere Independent School District
Erlanger, Kentucky**

We have audited the financial statements of the Erlanger-Elsmere Independent School District for the year ended June 30, 2013, and have issued our report thereon dated October 15, 2013. As part of our audit, we made a study and evaluation of the District's systems of internal accounting control to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America. The purpose of our study and valuation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the District's financial statements. Our study and evaluation was more limited than would be necessary for expressing an opinion on the system of internal accounting control taken as a whole.

The management of the Erlanger-Elsmere Independent School District is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related cost of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors, or irregularities may nevertheless occur and not be detected. Also, projections of any evaluation of the system to future periods are subject to risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system of internal accounting control. Accordingly, we do not express an opinion of the system of internal accounting control of the Erlanger-Elsmere Independent School District taken as a whole. Our study and evaluation disclosed no condition that I believe to be a material weakness.

Van Gorder, Walker, & Co., Inc.
Erlanger, Kentucky
October 15, 2013

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT

Management Letter Comments

June 30, 2013

Current Year Comments:

District Travel

13-01 – There were NO discrepancies noted. However, during routine inquiry, we noted that although appropriate approval for travel is provided by the District employee's immediate supervisor (or Board in the case of the Superintendent), the supervisor or Board does not sign-off on the travel expenses after travel has been completed. We recommend a policy that the employee's supervisor or Board review and sign-off on the amounts actually expended for the previously approved travel.

Management Response: *The District will implement a procedure that the supervisor or Board will review and sign off on the amounts actually expended for travel related expenses. A check-off sheet will be put into place by the Finance Department to be sent to all employees who have been approved for travel or a conference to enforce proper procedures.*

Superintendent Credit Card

13-02 – There were NO discrepancies noted and credit card purchases were very minimal. However, during routine inquiry, we noted that the District Board does not review the details of the Superintendent's credit card before payment. We strongly recommend a policy that a Board member or committee of the Board be assigned to review, at a minimum, the credit card statements (as well as the related support documentation, receipts, and documented business purpose) of the Superintendent and any Executive Staff.

Management Response: *The Board, Board Chairman or a Committee chosen by the Board will review all credit card statements and the supporting documentation.*

Principal Signoff on Activity Fund Bank Statements

13-03 – There were NO discrepancies noted. However, during routine inquiry, we noted that the Principal of each school reviews and signs-off on the school activity fund bank statements. However, we were not convinced the Principal's completely understood what they should be looking for on the statements. We recommend that the District utilize a "sign-off sheet" that lists the items the Principal should look for/review. These may include, but are not limited to the following: no ATM withdrawals, no counter checks written, each check is signed by two parties and the signators are both authorized signators on the account, and there are no unauthorized ACH transactions on the account.

Management Response: *The District will put into place a sign-off sheet for the review of the Bank Statements at the school level. This will allow the Principals to have a greater understanding of their requirements in signing the Bank Statement.*

Segregation of Duties:

13-04, 12-04 Due to the size of the District, proper segregation of duties is not always possible. Minor risks of intentional financial statement misstatement due to improperly segregated record keeping and reconciliation functions do exist. However, the District's board, through thorough review of the District's monthly financial statements, provides a compensating control over financial reporting. I encourage to District's board to continue to perform their fiduciary responsibility through the following procedures:

- 1) Closely review the District Treasurer's monthly report.
- 2) Closely review and approve all disbursements.

ERLANGER-ELSMERE INDEPENDENT SCHOOL DISTRICT

Management Letter Comments

June 30, 2013

- 3) Continue to monitor all significant variations between the approved budget and the actual cash receipts and disbursements.

While these procedures will not entirely eliminate the potential risk of misstatement, their implementation will reduce the risk to a tolerable level in the current circumstances.

Auditor Comment: *Due to the size of the District and financial constraints, this comment has been repeated to remind the board of the importance of their fiduciary responsibility to closely monitor the District disbursements and the monthly Treasurer's report.*

Prior Year Comments:

Tax Receipts

12-01 – During routine testing, we found the District had co-mingled tax receipts from several local sources, including motor vehicle tax, delinquent property tax, and omitted tangible tax. These accounts required significant reclassification. We recommend the District refine the process of classifying tax receipts.

Corrective Action:

The tax receipts were properly classified in fiscal year 2012-2013.

Fixed Asset Subsidiary Schedules

12-02 – As part of the audit process, we are required to match the clients subsidiary ledgers to the general ledger. During this process, we noted that the fixed asset subsidiary ledger does not match the general ledger. We recommend that this ledger be reconciled to the general ledger annually.

Corrective Action:

The District provided a reconciled ledger for fiscal year 2012-2013.

Fixed Asset Additions

12-03 – During the audit process, we were required to make determinations, with the assistance of management, as to what assets were to be capitalized for fiscal year 2012. This process should be completed by the District before the audit process begins. We recommend that the District determine and document which assets they plan to capitalize as a part of preparing for the annual audit.

Corrective Action:

The District provided, through their consultant accountant, a listing of assets which required capitalization.